

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Upper Peninsula Substance Enforcement Team	County Marquette
Audit Date 9/30/05	Opinion Date 1/6/06	Date Accountant Report Submitted to State: 2/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

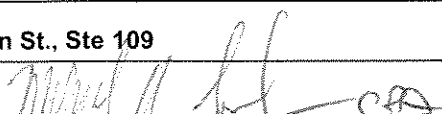
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, PLC			
Street Address 102 W. Washington St., Ste 109		City Marquette	State MI
Accountant Signature 		ZIP 49855	Date 2/27/06

**UPPER PENINSULA
SUBSTANCE ENFORCEMENT TEAM**

FINANCIAL STATEMENTS

For the Year Ended September 30, 2005

TABLE OF CONTENTS

Independent Auditors' Report	3
Management's Discussion and Analysis	5
Governmental Funds Balance Sheet/Statement of Net Assets	9
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities	10
Notes to Financial Statements	11

Required Supplemental Information

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	17
--	----

Additional Information

Schedule of Operating Expenditures	19
--	----

Compliance Supplements

Report on Compliance and on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Management Letter	23



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Upper Peninsula Substance
Enforcement Team
P.O. Box 364
Gwinn, MI. 49841

We have audited the accompanying financial statements of the governmental activities of the Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2005, which collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Upper Peninsula Substance Enforcement Team's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Upper Peninsula Substance Enforcement Team as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated January 6, 2006 on our consideration of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, and budgetary comparison information on pages 5 through 8 and page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement

Upper Peninsula Substance
Enforcement Team
P.O. Box 364
Gwinn, MI. 49841

and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Upper Peninsula Substance Enforcement Team. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 6, 2006

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Upper Peninsula Substance Enforcement Team's financial performance provides an overview of the Upper Peninsula Substance Enforcement Team's financial activities for the year ended September 30, 2005. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the Upper Peninsula Substance Enforcement Team as a whole decreased by \$35,551 as a result of this year's operations.
- The general fund reported a decrease in fund balance of \$7,057. This is \$7,057 lower than the forecasted decrease of \$-0-.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the Upper Peninsula Substance Enforcement Team as a whole and present a longer-term view of the Upper Peninsula Substance Enforcement Team's finances. Expenditure schedules for each Upper Peninsula Substance Enforcement Team Program start on page 19. These statements report the Upper Peninsula Substance Enforcement Team's operations in more detail than the Agency-wide statements showing expenditures for each program by main expense category.

Reporting the Upper Peninsula Substance Enforcement Team as a Whole

Our analysis of the Upper Peninsula Substance Enforcement Team as a whole begins on page 6. One of the most important questions asked about the Upper Peninsula Substance Enforcement Team's finances is "Is the Upper Peninsula Substance Enforcement Team as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Upper Peninsula Substance Enforcement Team as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Upper Peninsula Substance Enforcement Team's *net assets* and changes in them. You can think of the Upper Peninsula Substance Enforcement Team's net assets - the difference between assets and liabilities - as one way to measure the Upper Peninsula Substance Enforcement Team's financial health, or *financial position*. Over time, *increases or decreases* in the Upper Peninsula Substance Enforcement Team's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Upper Peninsula Substance Enforcement Team's client base and the condition of the Upper Peninsula Substance Enforcement Team's capital assets, to assess the *overall financial health* of the Upper Peninsula Substance Enforcement Team.

All of the Upper Peninsula Substance Enforcement Team's activities are reported as governmental activities, detailed in the statement of net assets and the statement of activities. All of the Upper Peninsula Substance Enforcement Team's basic services are reported here. Upper Peninsula Substance Enforcement Team activities are primarily funded by state and local sources of funds and forfeitures.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**Reporting on the Upper Peninsula Substance Enforcement Team's General Fund**

All Upper Peninsula Substance Enforcement Team programs and services are reported in the General Fund. Our analysis of the Upper Peninsula Substance Enforcement Team's general fund begins on page 19. This financial statement provides detailed information on Upper Peninsula Substance Enforcement Team's expenditures by reporting unit.

- *Governmental funds* – All of the Upper Peninsula Substance Enforcement Team's services are reported in a single governmental fund, which details how money flows into and out of the fund, and the balances left at year-end that is available for spending. The report uses an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Upper Peninsula Substance Enforcement Team's general government operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Upper Peninsula Substance Enforcement Team's programs.

The Upper Peninsula Substance Enforcement Team as a Whole

Table I provides a summary of the Upper Peninsula Substance Enforcement Team's net assets as of September 30, 2005 and 2004.

Table 1		
Net Assets		
	<u>Governmental Activities - 2005</u>	<u>Governmental Activities - 2004</u>
Current and other assets	\$232,446	\$227,905
Capital assets, net	<u>68,028</u>	<u>96,522</u>
Total Assets	<u>300,474</u>	<u>324,427</u>
Current liabilities	\$ 81,286	\$ 69,688
Non-current liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>81,286</u>	<u>69,688</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 68,028	\$ 96,522
Restricted	<u>-</u>	<u>-</u>
Unrestricted	<u>151,160</u>	<u>158,217</u>
Total Net Assets	<u>\$219,188</u>	<u>\$254,739</u>

Net assets of the Upper Peninsula Substance Enforcement Team's governmental activities stood at \$219,188. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$151,160.

The results of this year's operations for the Upper Peninsula Substance Enforcement Team as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2005 and revenue and expense in fiscal year 2005 compared to revenue and expense in fiscal year 2004.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Table 2
Change in Net Assets

	Governmental Activities – 2005	Governmental Activities – 2004
Revenues		
Federal Sources	\$363,790	\$308,982
Local Sources	409,853	357,290
Other Sources	<u>83,332</u>	<u>123,985</u>
Total Revenues	<u>856,975</u>	<u>790,257</u>
Program Expenses		
Operating expenditures	883,800	796,262
Forfeiture expenditures	8,726	4,187
Capital outlay	<u>-</u>	<u>-</u>
Total Expenses	<u>892,526</u>	<u>800,449</u>
Increase (decrease) in net assets	(35,551)	(10,192)
Net assets, beginning	<u>254,739</u>	<u>264,931</u>
Net Assets, Ending	<u>\$219,188</u>	<u>\$254,739</u>

The Upper Peninsula Substance Enforcement Team's total revenues were \$856,975. The total cost of all programs and services was \$892,526, leaving a decrease in net assets of \$35,551. Our analysis below considers in more detail the operation of the Upper Peninsula Substance Enforcement Team's programs (in governmental activities) during 2005.

Governmental Activities

To understand the operation of the Upper Peninsula Substance Enforcement Team, its programs and services can be seen as falling into one broad category: those basic to local public safety relating to substance enforcement in the Upper Peninsula. The Upper Peninsula Substance Enforcement Team's basic public safety services are funded by state grants, local funding and forfeitures. Local funding consists of local government contributions.

THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FUNDS

As the Upper Peninsula Substance Enforcement Team completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a fund balance of \$151,160 and decrease of \$7,057 from the beginning of the year. This is an improvement as fund balance had decreased \$53,673 for fiscal year ended September 30, 2004.

General Fund Budgetary Highlights

The Upper Peninsula Substance Enforcement Team creates a budget based on the Grant Budget for the year. This budget does not include other revenues and expenditures.

The actual revenues for fiscal years 2005 and 2004 were \$110,975 and \$65,557 greater than the budget and actual expenditures were \$118,032 and \$119,229 greater than budgeted, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**CAPITAL ASSET AND DEBT ADMINISTRATION****Capital Assets**

At the end of fiscal years 2005 and 2004, the Upper Peninsula Substance Enforcement Team had \$ 68,028 and \$96,522 invested in a variety of capital assets including land, buildings, and other equipment, respectively. (See table 3 below)

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	<u>Governmental</u> <u>Activities – 2005</u>	<u>Governmental</u> <u>Activities – 2004</u>
Land	\$ 5,000	\$ 5,000
Buildings	63,027	65,011
Equipment and furnishings	1	26,511
Land improvements	-	-
Construction in progress	-	-
Totals	<u>\$68,028</u>	<u>\$96,522</u>

During the fiscal year 2004 the Upper Peninsula Substance Enforcement Team had purchased a building for \$71,975 including of minor improvements to the facility; the building was purchased with fund balance. There was also \$28,494 in depreciation expense for the fiscal years 2005 and 2004.

Debt

The Upper Peninsula Substance Enforcement Team had \$-0- in long term liabilities at year end of fiscal years 2005 and 2004.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Upper Peninsula Substance Enforcement Team's management staff considers their grant funding as the only factor which may have a bearing on the next year's revenue and costs when setting the new budget.

CONTACTING THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Upper Peninsula Substance Enforcement Team's finances and to show the Upper Peninsula Substance Enforcement Team's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Upper Peninsula Substance Enforcement PO BOX 364, Gwinn, MI 49841.

Upper Peninsula Substance Enforcement Team
Governmental Funds Balance Sheet / Statement of Net Assets
September 30, 2005

	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 60,241	\$ -	\$ 60,241
Accounts receivable	-	-	-
Due from federal government	66,766	-	66,766
Due from local government units	105,438	-	105,438
Total Current Assets	<u>232,446</u>	<u>-</u>	<u>232,446</u>
Non Current Assets			
Capital assets - net	-	68,028	68,028
Total Non Current Assets	<u>-</u>	<u>68,028</u>	<u>68,028</u>
TOTAL ASSETS	<u>\$ 232,446</u>	<u>68,028</u>	<u>300,474</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 14,519	-	14,519
Due to state	49,870	-	49,870
Due to local governmental units	16,896	-	16,896
Deferred forfeiture	-	-	-
Total Current Liabilities	<u>81,286</u>	<u>-</u>	<u>81,286</u>
Non Current Liabilities			
Notes payable	-	-	-
Total Non Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>81,286</u>	<u>-</u>	<u>81,286</u>
FUND BALANCE / NET ASSETS			
Fund Balance			
Unrestricted	151,160	(151,160)	-
TOTAL FUND BALANCE	<u>151,160</u>	<u>(151,160)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 232,446</u>		
Net Assets			
Invested in capital assets - net of related debt		68,028	68,028
Unrestricted		151,160	151,160
TOTAL NET ASSETS		<u>\$ 68,028</u>	<u>\$ 219,188</u>

The notes to the financial statements are an integral part of this statement.

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance / Statement of Activities
For the year ended September 30, 2005

	Modified Accrual Basis	Adjustments	Statement of Activities
REVENUES:			
Federal sources	\$ 363,790	\$ -	\$ 363,790
Local sources			
Contributions	374,853	-	374,853
Grants	35,000	-	35,000
Other sources			
Forfeitures	62,637	-	62,637
Restitution	3,467	-	3,467
Interest income	1,179	-	1,179
Reimbursements	16,049	-	16,049
TOTAL REVENUES	<u>856,975</u>	<u>-</u>	<u>856,975</u>
EXPENDITURES			
Operating expenses	855,306	28,494	883,800
Forfeiture expenses	8,726	-	8,726
Capital outlay	-	-	-
TOTAL EXPENDITURES	<u>864,032</u>	<u>28,494</u>	<u>892,526</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(7,057)</u>	<u>(28,494)</u>	<u>(35,551)</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	<u>158,217</u>	<u>96,522</u>	<u>254,739</u>
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 151,160</u>	<u>\$ 68,028</u>	<u>\$ 219,188</u>

The notes to the financial statements are an integral part of this statement.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Upper Peninsula Substance Enforcement Team is an unincorporated interagency of numerous law enforcement agencies in Upper Michigan. The participating agencies entered into this agreement to create the Upper Peninsula Substance Enforcement Team for the purpose of combining their efforts towards the enforcement of narcotics and controlled substance laws of the State of Michigan.

The financial statements of the Upper Peninsula Substance Enforcement Team have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Upper Peninsula Substance Enforcement Team are described below.

(1) REPORTING ENTITY

In evaluating the Upper Peninsula Substance Enforcement Team as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Upper Peninsula Substance Enforcement Team may or may not be financially accountable and, as such, be includable within the Upper Peninsula Substance Enforcement Team's financial statements.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Upper Peninsula Substance Enforcement Team's basic financial statement is government-wide (reporting the Upper Peninsula Substance Enforcement Team as a whole). All the Upper Peninsula Substance Enforcement Team's operations are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Upper Peninsula Substance Enforcement Team's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Upper Peninsula Substance Enforcement Team first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of the Upper Peninsula Substance Enforcement Team's functions. The functions are supported by state grants, local contributions and forfeitures. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus is more on the sustainability of the Upper Peninsula Substance Enforcement Team as an entity and the change in the Upper Peninsula Substance Enforcement Team's net assets resulting from the current year's activities.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Upper Peninsula Substance Enforcement Team:

General Fund - General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The Upper Peninsula Substance Enforcement Team reports the following major governmental funds:

The **General Fund** is the Upper Peninsula Substance Enforcement Team's primary operating fund. It accounts for all financial resources of the Upper Peninsula Substance Enforcement Team.

(3) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(4) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting - The Upper Peninsula Substance Enforcement Team follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Upper Peninsula Substance Enforcement Team Administrator submits to the Upper Peninsula Substance Enforcement Team's Board of Health proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Opportunities exist for public comment during the budget process since all action by the Board of Health occurs in open public hearings.
- c. Pursuant to statute, prior to September 30 of each year the budget for the ensuing year is legally enacted through adoption of the Annual Operating Budget.
- d. The general statute governing Upper Peninsula Substance Enforcement Team budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Upper Peninsula Substance Enforcement Team's Board of Health, through policy action, specifically directs the Administrator not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Upper Peninsula Substance Enforcement Team adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board of Health, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.

Cash Equivalents and Investments – For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Upper Peninsula Substance Enforcement Team as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land improvements	20 years
Building, structures and improvements	40 years
Equipment	5-20 years
Vehicles	5 years

Long-Term Liabilities: In the government-wide financial statements fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE B – CASH AND INVESTMENTS:

Cash and Equivalents

The Organization's cash and equivalents, as reported in the Statement of Net Assets, consist of the following:

Checking account	\$ 50,241
Petty cash	10,000
Total	<u>\$ 60,241</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned. State law does not require and the Organization does not have a deposit policy for deposit custodial credit risk. As of September 30, 2005, the Organization did not have cash and equivalents which were uninsured and uncollateralized.

The Organization has no investments at September 30, 2005.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS

The \$66,766 due from federal government represents accrued revenue, which has been reported as expenses relating to the Byrne Memorial Formula Grant Program.

The \$105,438 due from local government units represents the forfeited cash proceeds from the sale of property that is held by the City of Escanaba in a third party fiduciary relationship according to state and federal law.

NOTE D – DUE TO OTHER GOVERNMENTAL UNITS:

The Upper Peninsula Substance Enforcement Team accounts for the transactions for all the different agencies in regard to the Byrne Memorial Formula Grant Program. The amount due these other governmental units is as follows:

Michigan State Police	\$49,870
County of Delta	2,758
County of Marquette	5,833
City of Escanaba	4,370
City of Marquette	<u>3,935</u>
TOTAL	<u>\$66,766</u>

NOTE E – EXCESS EXPENDITURES OVER APPROPRIATIONS:

Public Act 621 provides that the Upper Peninsula Substance Enforcement Team shall not incur expenditures in excess of amounts appropriated. The following fund had expenditures over appropriations for the year ended September 30, 2005:

General Operating Fund	<u>\$118,032</u>
------------------------	------------------

NOTE F – CAPITAL ASSETS:

Capital asset activity of the Upper Peninsula Substance Enforcement Team for the current year was as follows:

	Beginning Balances <u>10/01/04</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balances <u>9/30/05</u>
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Land Improvements	-	-	-	-
Buildings	66,975	-	-	66,975
Equipment	<u>132,602</u>	<u>-</u>	<u>-</u>	<u>132,602</u>
	<u>204,577</u>	<u>-</u>	<u>-</u>	<u>204,577</u>
Less Accumulated Depreciation:				
Land Improvements	-	-	-	-
Buildings	(1,974)	(1,974)	-	(3,948)
Equipment	<u>(106,081)</u>	<u>(26,520)</u>	<u>-</u>	<u>(132,601)</u>
	<u>(108,055)</u>	<u>(28,494)</u>	<u>-</u>	<u>(136,549)</u>
Total	<u>\$ 96,522</u>	<u>\$ (28,494)</u>	<u>\$ -</u>	<u>\$ 68,028</u>

Required Supplemental Information

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the year ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal sources	\$ 373,000	\$ 373,000	\$ 363,790	\$ (9,210)
Local sources				
Contributions	373,000	373,000	374,853	1,853
Grants	-	-	35,000	35,000
Other sources				
Forfeitures	-	-	62,637	62,637
Restitution	-	-	3,467	3,467
Interest income	-	-	1,179	1,179
Reimbursements	-	-	16,049	16,049
TOTAL REVENUES	<u>746,000</u>	<u>746,000</u>	<u>856,975</u>	<u>110,975</u>
EXPENDITURES:				
Operating	746,000	746,000	855,306	(109,306)
Forfeiture	-	-	8,726	(8,726)
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>746,000</u>	<u>746,000</u>	<u>864,032</u>	<u>(118,032)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(7,057)</u>	<u>(7,057)</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	158,217	158,217	158,217	-
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 158,217</u>	<u>\$ 158,217</u>	<u>\$ 151,160</u>	<u>\$ (7,057)</u>

Additional Information

Upper Peninsula Substance Enforcement Team
Schedule of Operating Expenditures
For the year ended September 30, 2005

OPERATING EXPENDITURES	
Personnel	\$ 702,755
Communications	8,098
Contractual	12,964
Insurance	2,988
Professional services	2,875
Supplies	8,175
Transportation	77,323
Training	1,520
Utilities	7,665
Miscellaneous	30,943
TOTAL OPERATING EXPENDITURES	<u>\$ 855,306</u>

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Upper Peninsula Substance Enforcement Team
PO Box 364
Gwinn, Michigan 49841

We have audited the financial statements of the Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2005, and have issued our report thereon dated January 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Upper Peninsula Substance Enforcement Team's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Peninsula Substance Enforcement Team's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate letter to management of the Upper Peninsula Substance Enforcement Team dated January 6, 2006.

This report is intended solely for the information and use of management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

January 6, 2006



Upper Peninsula Substance Abuse Team (U.P.S.E.T.)

*Report to Management Letter
For the Year Ended September 30, 2005*

U.P.S.E.T.
P.O. Box 364
Gwinn, MI. 49841-0364

In planning and performing our audit of the financial statements of U.P.S.E.T. for the year ended September 30, 2005, we considered its internal control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted no matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect U.P.S.E.T.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

INSTANCES OF NON-COMPLIANCE

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures shall be filed with the State Treasurer and reported to the Attorney General.

U.P.S.E.T.
Gwinn, MI. 49841-0364

U.P.S.E.T. was found to be in violation of the legal and contractual provisions of Public Act 621 in certain individual funds as enumerated upon in the footnotes.

OTHER COMMENTS AND RECOMMENDATIONS

Segregation of Duties

Due to the small staff size of U.P.S.E.T. the proper segregation of duties in the accounting applications is not always practical. The most critical areas are cash and cash management, where the danger that intentional or unintentional errors could be made and go undetected for a period of time exists. To alleviate this condition, the Board reviews financial reports at their board meetings and has adopted a policy regarding their involvement in the check issuance process.

This report is intended solely for the information and use of U.P.S.E.T.'s management, and others within the Administration.

We appreciate and would like to thank U.P.S.E.T.'s staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 6, 2006